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GENERAL ACCOUNTING OFFICE WASHINGTON DC INTERNATIONAL DIV F/G 5/4
ALTERNATIVES TO THE NORTHERN MARIANA ISLANDS LAND LEASE.(U)

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BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Chairman, Committee On
Appropriations, House Of Representatives**

**Alternatives To The Northern
Mariana Islands Land Lease**

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The Defense Department has not demonstrated a need for over half of the total land proposed for lease. Furthermore, the lease option contains limitations on uses that are not in the interest of either the Northern Mariana Islands Government or the U.S. Government. Alternatives to the option exist that will reduce rental costs and make the land leased more consistent with usage requirements.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

B-208378

The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives



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Dear Mr. Chairman:

At your request, we reviewed the Department of Defense (DOD) proposal to lease 18,182 acres of land in the Northern Mariana Islands. (See app. I.) The identified military uses for this land are very limited, with only 8,306 acres currently used for periodic joint service training exercises. Although the Commander in Chief of the Pacific (CINCPAC) considers all the land to be of strategic importance to the military mission in the Pacific, at the time of our review, DOD had no specific usage plans for the remaining 9,876 acres. CINCPAC has recently ordered an immediate study to determine the specific usage requirements for this land, in an effort to convince the Congress to provide the funding necessary to exercise the lease option.

We examined the advantages and disadvantages of the alternatives the United States is faced with in terms of how well each meets the identified military needs, its cost effectiveness, and opportunities for use of unneeded land by the Government of the Northern Marianas.

LEASE OPTION CONTAINED IN COVENANT

A Covenant between the Northern Mariana Islands and the United States, to establish a commonwealth, was signed on February 18, 1975. The Covenant provides the U.S. Government the option to exercise a 50-year lease with an option to renew for another 50 years a total of 18,182 acres distributed among the islands of Saipan (177 acres), Farallon de Medinilla (206 acres) and Tinian (17,799 acres). Under a 1978 Executive order, the opportunity to exercise the lease option began on January 9, 1978, and expires on January 8, 1983. The one-time payment covering both initial and optional renewal rights under the lease was \$19,520,600 in 1975. However, the option contains an inflationary clause that ties the rental price to the U.S. Department of Commerce composite price index which starts from the date of signing the Covenant. As of the 1982 third quarter, the current price based on the composite price index from 1975 to 1982 is \$33,517,763.

ABSENCE OF DEMONSTRATED NEED FOR
MAJORITY OF LAND

DOD is able to demonstrate a need for only 8,306 acres currently used for military training. There are no current plans that specifically identify how the remaining 9,876 acres would be used to meet long-term contingencies.

Current need

According to the CINCPAC commanders, the Island of Farallon de Medinilla (FDM) (see app. II) is needed as a bombing target range for Air Force B-52 crews and for carrier-based Navy tactical aircraft. (See app. III.) Navy ships also use FDM as a target for offshore gunnery practice. Navy and Air Force commanders said the advantage of using FDM for this type of training is that it affords the opportunity for unrestricted "live-fire" practice which is not possible elsewhere in this area of the Pacific.

About 8,100 acres on the north end of the Island of Tinian is needed for joint service assault exercises (JA/ATT). These exercises primarily involve U.S. Marine Corps infantry assault landings assisted by C-130 aircraft of the Military Airlift Command (see apps. IV, V, and VI) and Navy troop transportation vessels. The exercises last about 5 weeks, are conducted biannually, and involve about 1,000 Marines permanently assigned to Okinawa and Guam. Field commanders said that no analysis has been performed to formally measure the effect these exercises have on readiness; however, they claim that to them the benefit to participants is obvious. Military commanders said that like the island of FDM, the ability to conduct unrestricted live-fire training exercises on Tinian cannot be duplicated elsewhere in this area of the Pacific, and makes the land used in these exercises so valuable. The United States currently pays \$30,000 annual rent for the land on Tinian and FDM used in these exercises.

CINCPAC commanders said that there is no current military use of the land on Saipan. (See apps. VII and VIII.)

Long-term need

According to CINCPAC commanders, the land on the island of Tinian, not currently used for training, is needed for contingencies that might require fallback alternative basing for aircraft, personnel, and materials presently located in more forward basing locations in Japan, Korea, and the Philippines. They further contend that this land is needed to serve as a base for aircraft that would be used to provide greater protection for the sea lanes of communication that run through this area of the Pacific and are so vital to U.S. interests.

To support this position, we were provided two studies--Project Gateway completed in 1971 and Crested Isle completed in 1973. These studies show how the land on Tinian would be utilized for basing to support Air Force and Navy operational requirements. However, since these studies were done, they have become invalid for justifying current and contingency needs for Tinian. For example, the Gateway study assumes a scenario that denies U.S. forces basing rights and access in Okinawa, Japan, Taiwan, and the Philippines at the same time and advocates the relocation of these forces to the excess capacity areas on Guam with the overflow positioned on Tinian. DOD rejected this study because the scenario was considered unrealistic.

The Crested Isle study focused on establishing a Strategic Air Command (SAC) base on Tinian as a sister base to the one that exists on Guam. However, since this study's completion, SAC needs and priorities have changed, resulting in the reduction of flight operations and presence in the Pacific. Consequently, the requirements and criteria necessary to support the need for an air base on Tinian appear to no longer exist.

There has been no updated analysis performed that shows the specific usage for the land on Tinian. All current planning for the long-term contingency need of this land was entirely conceptual at the time of our review. CINCPAC acknowledged the difficulty this causes in demonstrating the importance of perceived need for this land. In spite of this, CINCPAC commanders, based on their military experience, still consider it very important that the United States exercise the land lease option for contingency purposes. They said that as a result of our discussions with them, they recognize that the military has not sufficiently supported its justification for acquiring the land and because of this there is a strong possibility of losing access to it. For these reasons and because they believe the lease option is so strategically important, they plan on advocating to DOD that it pay the lease with other funds if the requested funds are denied by the Congress. Furthermore, in July 1982, CINCPAC ordered a joint services study be immediately performed in an effort to demonstrate the need for the land. The objective of the study is to specifically match up operational requirements relating to various contingencies with the basing capabilities that exist on the land available for lease. The study was not completed at the time we prepared our report; therefore, we were not able to analyze its findings.

The excess capacity that currently exists elsewhere in the Pacific, such as Guam, that could be used to accommodate requirements will be included in the study. We determined that considerable excess capacity exists on Guam. (See apps. IX and X.) For example, the Deputy Commander of the 3rd Air Division at Anderson Air Force Base said that during the Vietnam War, 150 B-52 aircraft were located at Anderson where only 14 B-52s are currently assigned.

CINCPAC commanders could not identify any long-term contingency need for the land on Saipan or FDM. We were told that the perceived need at the time the Covenant was written for the land on Saipan no longer exists.

STATUS OF NEGOTIATIONS BETWEEN
THE UNITED STATES AND OTHER
TRUST TERRITORY GOVERNMENTS

U.S. Government efforts to establish a Free Association Compact between the Trust Territory Governments of Palau, the Federated States of Micronesia (FSM), and the Marshall Islands have been stalled as a result of the controversy that has ensued over the U.S. military access to the island of Kwajalein in the Marshall Islands and unresolved differences in the negotiations with the FSM and Palau.^{1/} The Government of the Marshall Islands is seeking additional money from the U.S. Government in exchange for the continued use rights of the island of Kwajalein as an intercontinental missile test range. The Governments of FSM and Palau are also seeking additional funding from the United States before they will fully endorse the provisions contained in the Compact agreements.

Although the Free Association Compact will include a supplementary agreement for access to an airfield in Palau, we could not identify anything in this agreement or issues raised in negotiations that indicates a need to proceed with the Northern Marianas land lease. DOD will also have to prove the need for access to the airfield in Palau to obtain the necessary funding from the Congress. Officials we discussed this with in CINCPAC said the same difficulty will be encountered in proving a need for the land on Palau as there has been in proving the need for the land in the Northern Marianas.

MARKET VALUE OF LAND

Current land value estimates for Saipan and for Tinian were obtained from two private real estate appraisers. (See app. XI.) The estimates show that the fair market value of the land on Tinian is lower than the price the United States is obligated to pay including increases for inflation. Although the fair market value of the land on Saipan is estimated to be much greater than the price to the United States, the terms of the Covenant require this land to be sub-leased back to the Government of the Northern Marianas for development as a memorial park. This would keep the land clear for future military contingency need but also prevent any opportunity for commercial development.

^{1/}The Northern Mariana Islands is also part of the U.S. Trust Territory to which Palau, the Federated States of Micronesia, and the Marshall Islands now belong.

OTHER COSTS TO THE UNITED STATES

If the United States exercises the land lease option under the Covenant, the United States would be obligated to pay relocation costs of 41 homesteaders after the Northern Marianas Government has purchased the land. In a recent appraisal, the market value of this land was estimated to be \$845,123. There are no estimates on what relocation costs might total.

ALTERNATIVES

We conclude that acquiring the land through eminent domain before the expiration date of the lease option or offering the initially agreed on rental price of \$19,520,600 without additions for inflation, are both contrary to the terms agreed to by the United States in P.L. 94-241 and are, therefore, not viable alternatives for acquiring the land.

It appears that the United States has three viable alternatives concerning this lease option. First, the option could be allowed to expire. Subsequently, it should be possible for the United States to negotiate annual rental agreements for continued use of FDM and the part of Tinian currently used for military training exercises. However, a longer term commitment to assure continued access would be more desirable. Also, this alternative would allow the Government of the Northern Marianas to sell or develop any or all of the land on Saipan and Tinian for commercial uses.

Second, the United States could exercise the option and pay the approximate \$34 million lease fee. This could give the United States the right to use the full 18,182 acres for at least 50 years with no further rent payments. The \$30,000 annual rent for FDM and part of Tinian would no longer be necessary. However, exercising the option may preclude any commercial development of the land, including the valuable waterfront land on Saipan. The terms of the lease, as required by the Covenant, prohibit any such development. This might be overcome through subsequent supplementary agreements that may be negotiated. This alternative would also obligate the United States to pay an undetermined amount in relocation payments to homesteaders now living on Tinian.

The third alternative, and the one we believe has the most advantages, would be to allow the lease option to expire and then attempt to negotiate with the Northern Marianas Government for a new long-term lease covering only the land for which a clear military need has been identified. According to the results of our review, this would include only FDM and about 8,100 acres on Tinian currently used for training. The land on Saipan, valued at about \$101,000 per acre, has no identified military use and could be turned back to the Northern Marianas for commercial development. This alternative is similar to the first except

instead of a year-to-year arrangement for the training areas, a long-term agreement providing more assurance of continued availability would be sought. The constitution of the Northern Marianas permits 40-year land leases. A lease of that duration for only the acreage needed should be considerably less costly to the United States than paying \$35 million for an option that includes almost 10,000 acres of land for which a clear need has not been identified. This alternative would also allow the Northern Marianas Government to commercially develop the unneeded land with the potential for a financial return greater than would be received through the lease to the United States.

According to officials of the Naval Facilities Engineering Command, the Government of the Northern Marianas, and locally based realtors in the Northern Marianas, private developers are interested in most of the lease option land on Saipan and Tinian. For example, officials of the Northern Marianas Government told us that several private concerns have expressed interest in developing the 177 acres of waterfront property on Saipan as hotels and for dockside industrial usage. They also said that approximately 6,000 to 10,000 acres on Tinian could be leased to private companies engaged in agriculture and fishing at rents much higher than what the United States would pay through the lease option. Although these officials could not provide specific evidence of interest in the land on Saipan, local realtors we talked with believe such a demand does exist for the property and that the land will continue to increase in value. For the land on Tinian, some development proposals have already been submitted to the Northern Marianas Government, and they appear to represent a genuine interest and offer the possibility for generating several thousand dollars in annual rent income.

Several officials of the Northern Marianas Government expressed the desire to take advantage of these proposals, which they believe offer opportunities to help offset the negative current financial deficit. It is their hope that the United States will release unneeded land back to the Northern Marianas Government.

VIEWS OF AGENCY OFFICIALS

We provided a draft of this report to DOD officials involved in the lease agreement, and met with the Deputy Assistant Secretary for International Security Affairs. He agreed that DOD has not done the planning necessary to document the long-term need for the land in the Northern Marianas and that the report accurately reflects the current state of planning. However, he emphasized his belief in the importance of the land to meet contingency requirements in the Pacific. He believes that DOD will continue to push for funding of the lease agreement.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our review was to identify factors that should be considered by the Congress in its deliberation over whether or not to appropriate the funds needed to exercise the lease option.

To identify need for the land, we reviewed documents and had discussions with key officials within the Office of the Assistant Secretary of Defense for International Security Affairs section of DOD, the Joint Chiefs of Staff, and the commanders in chief of every major military command in the Pacific including the CINCPAC. During the fieldwork in the Pacific, we physically inspected the land proposed to be leased and to gain their perspective on the lease, we met with members of the Senate, House of Representatives, and the Governor of the Northern Marianas. We also met with members of the Government of the Northern Marianas Public Lands Corporation which is the official authority offering the lease of the land to the United States. To obtain information on the current market values of the land proposed for lease, we met with local realtors in Saipan and also with a private appraiser who recently completed an appraisal of a major portion of the proposed lease land on behalf of the Government of the Northern Marianas.

Our review was performed in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." At your request, we did not get agency comments. However, we discussed our findings with DOD officials.

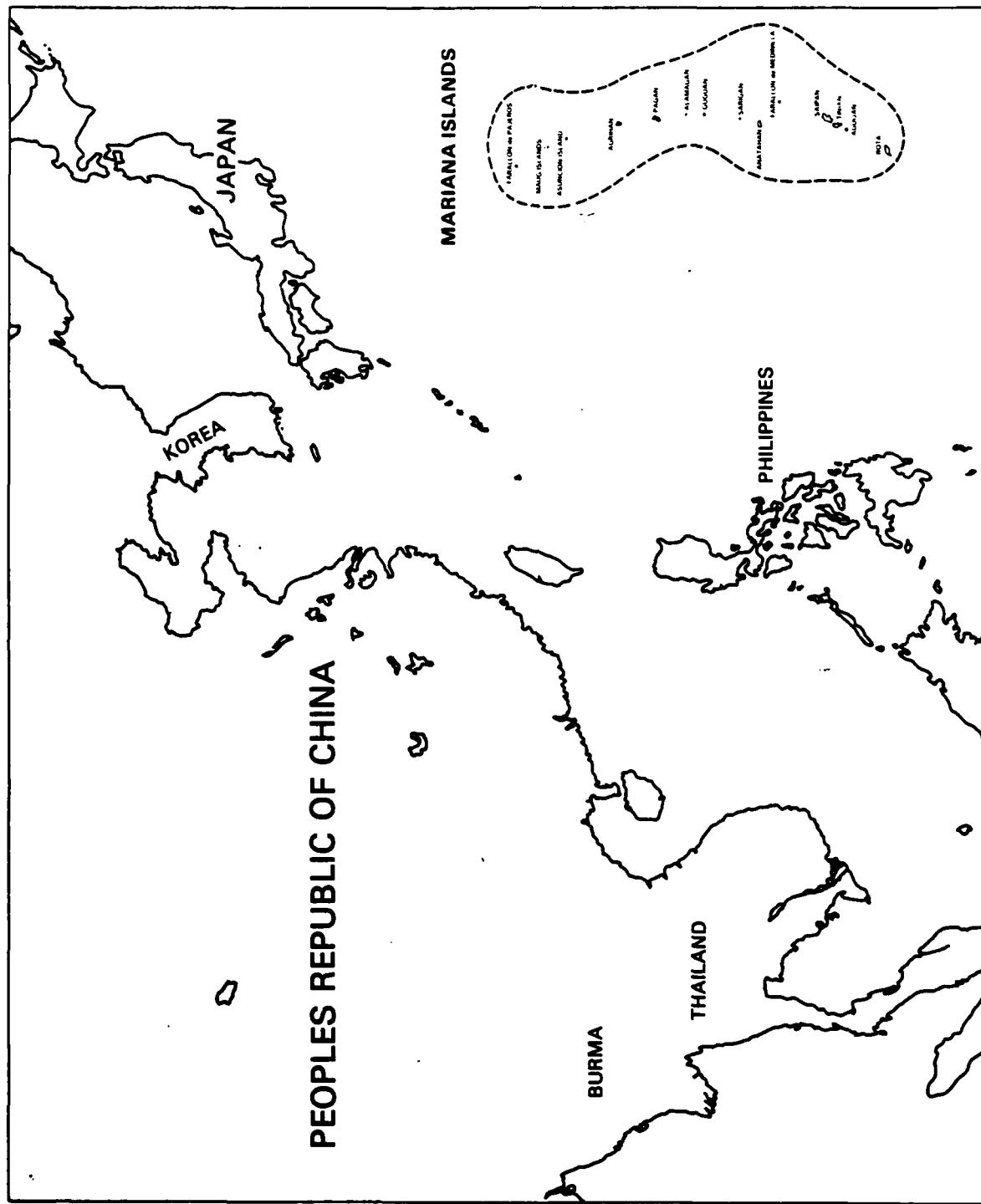
After the 3-day hold you requested, we are sending copies of this report to the Chairman, Senate Committee on Appropriations; the Director, Office of Management and Budget; the Secretaries of State and Defense; and other interested parties.

Sincerely yours,

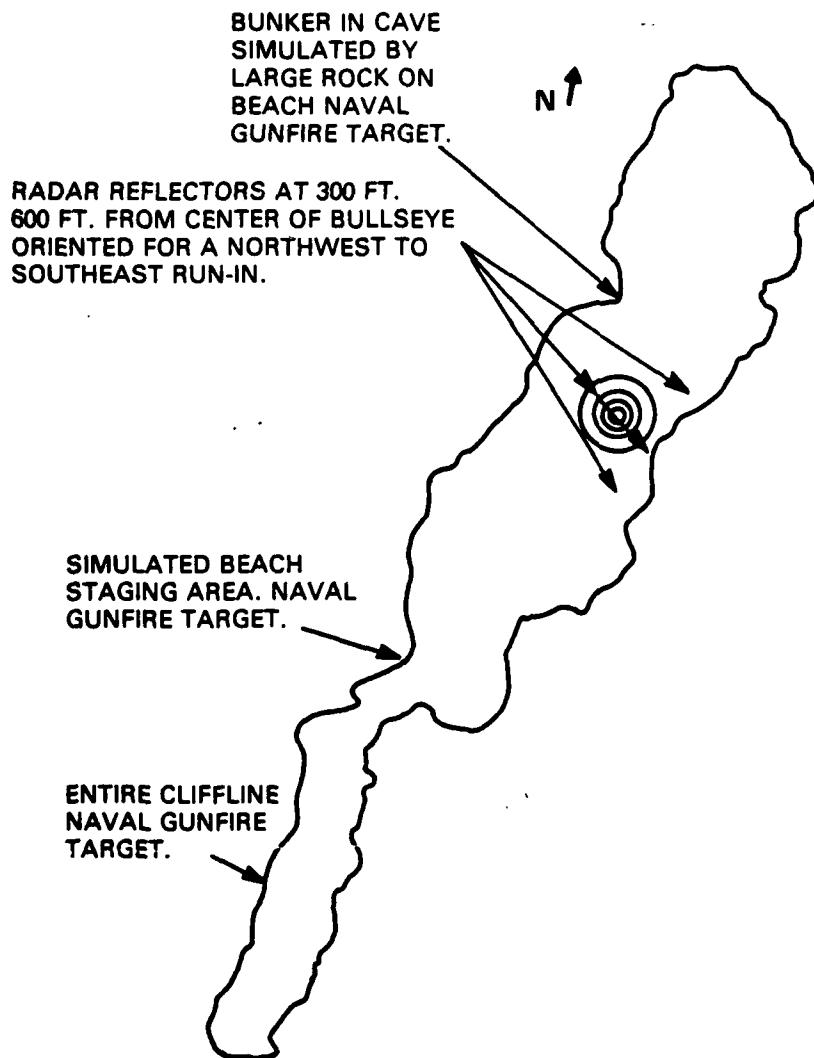


Frank C. Conahan
Director

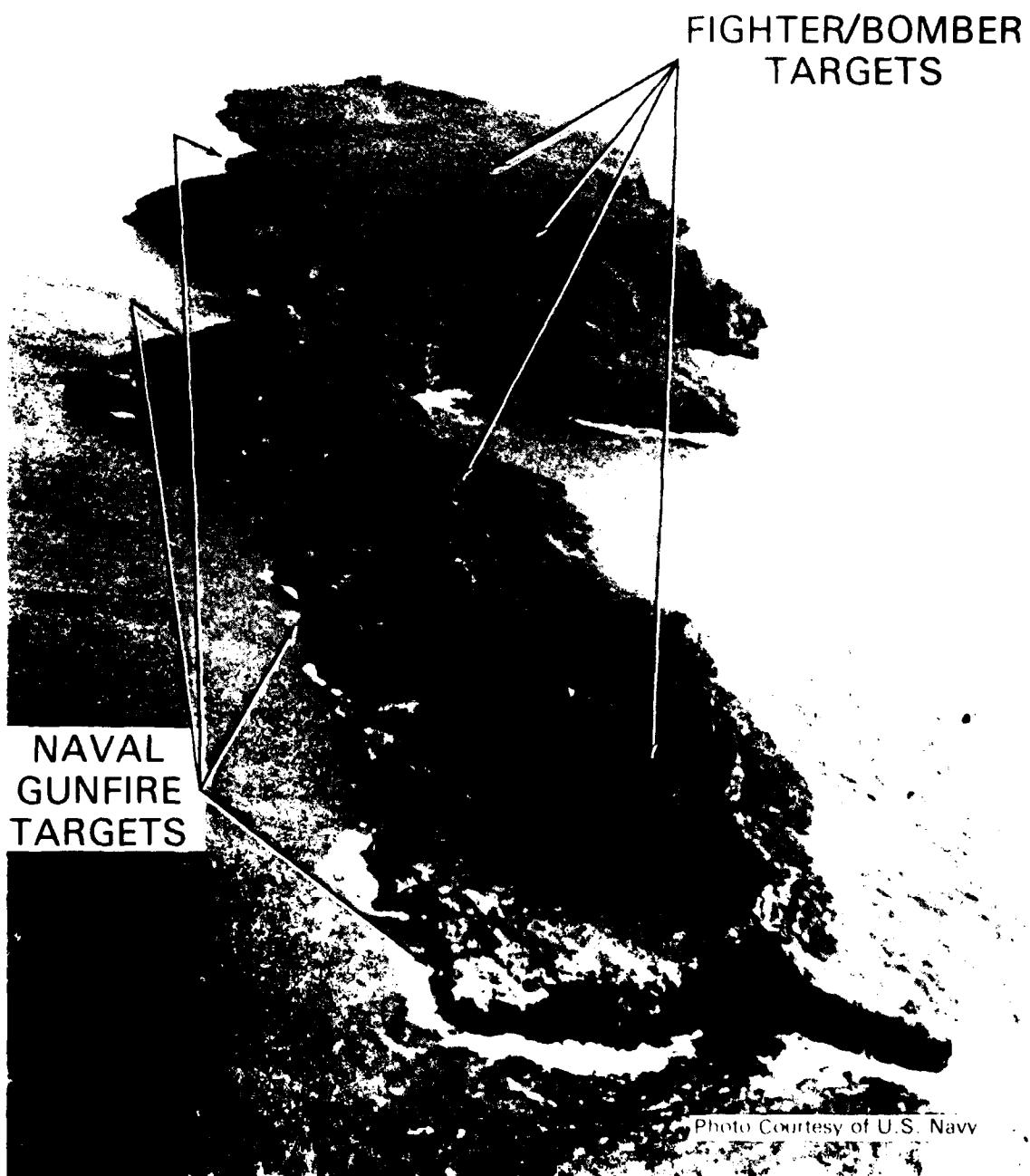
APPENDIX I



FARALLON de MEDINILLA ISLAND



APPENDIX III



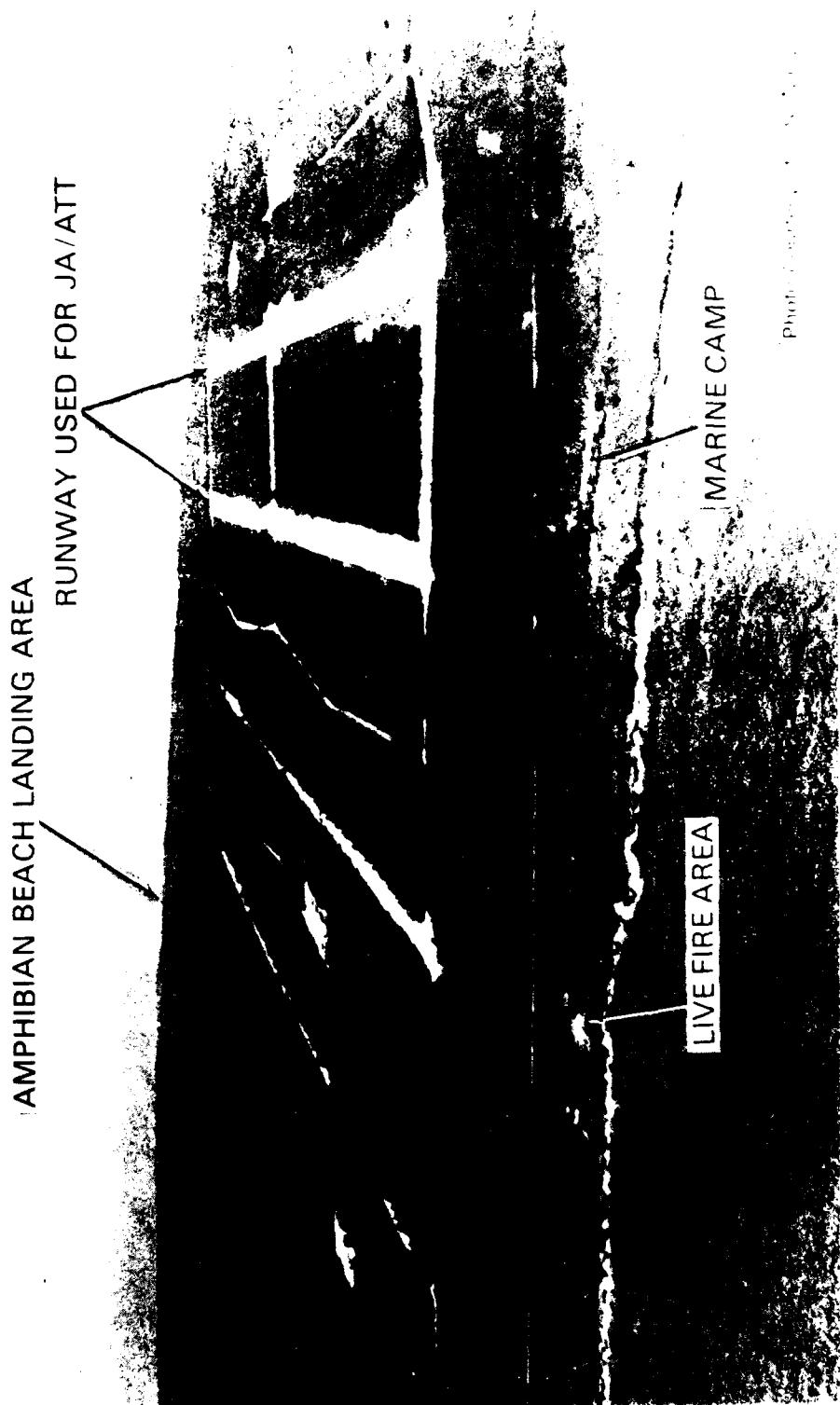
LAND CURRENTLY LEASED BY THE
MILITARY FOR JOINT SERVICE TRAINING

— CURRENT LEASE
- - - UNDER LEASE OPTION

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HARBOR

PUNTAN
CAROLINAS

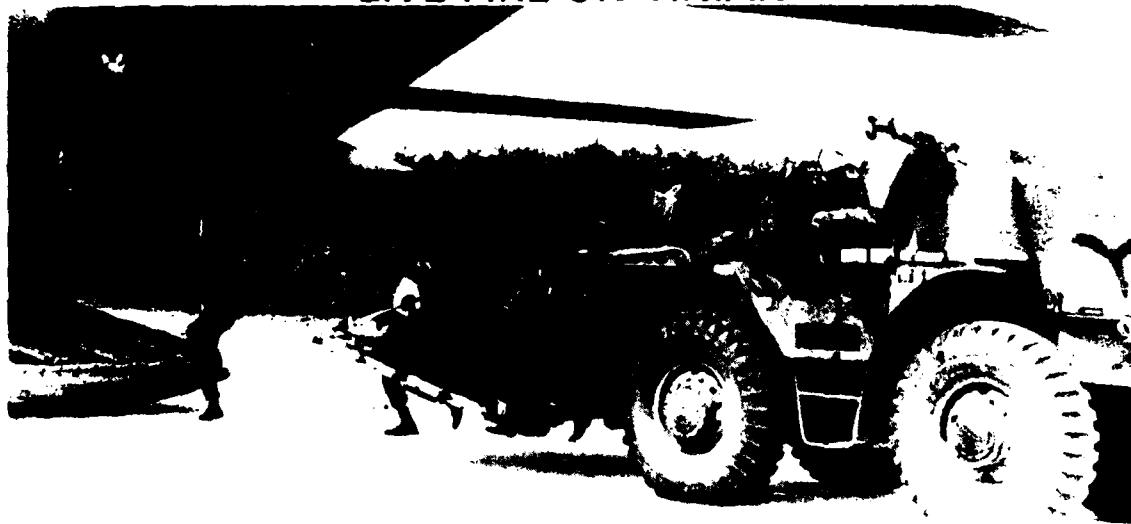
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JOINT AIRBORNE AIR TRANSPORTABILITY TRAINING JA/ATT



LIVE FIRE ON TINIAN



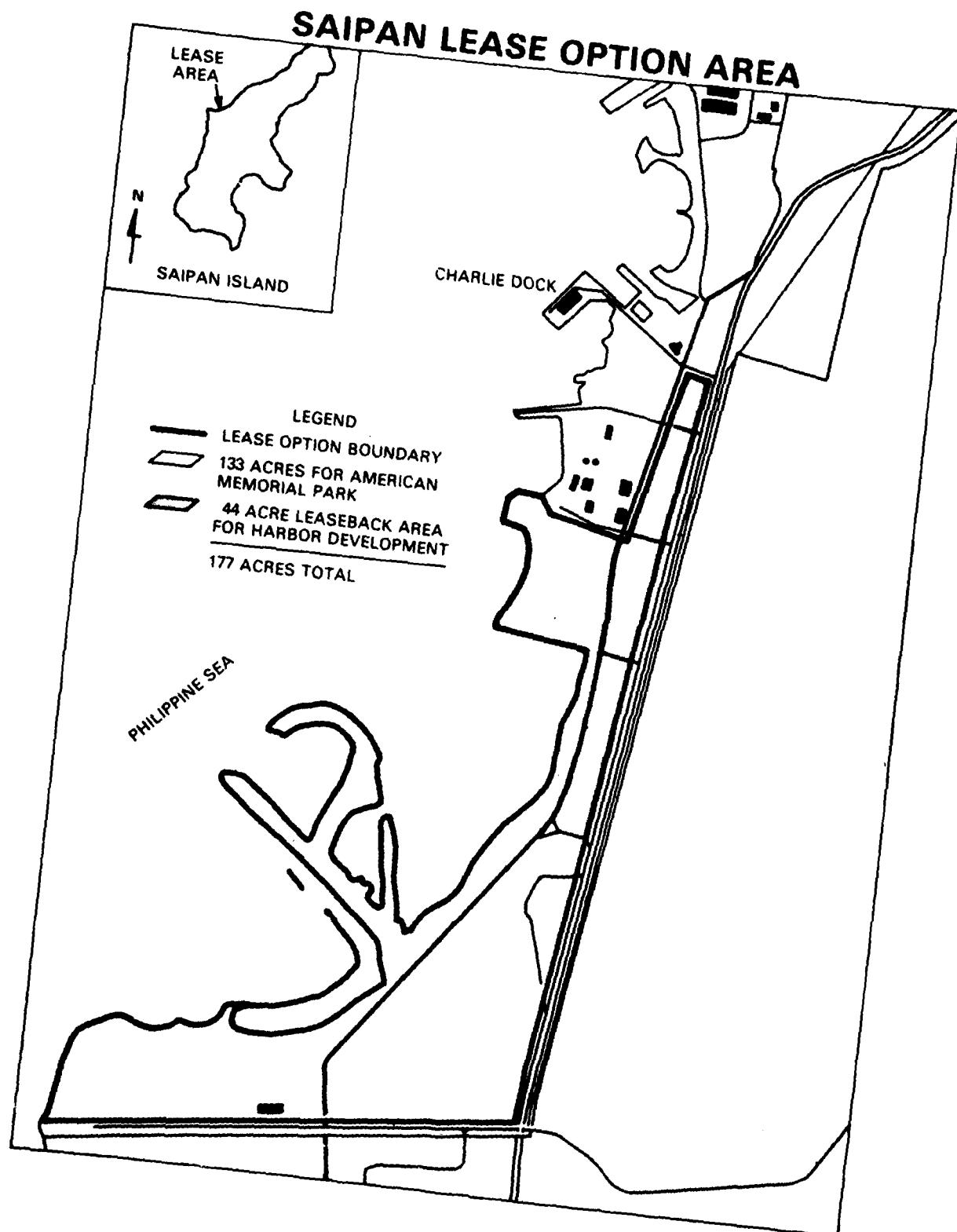
UNLOADING OF EQUIPMENT



OFF-LOADING MARINES

Photo Courtesy of U.S. Navy

APPENDIX VII



SAIPAN LEASE OPTION AREA



APPENDIX VIII

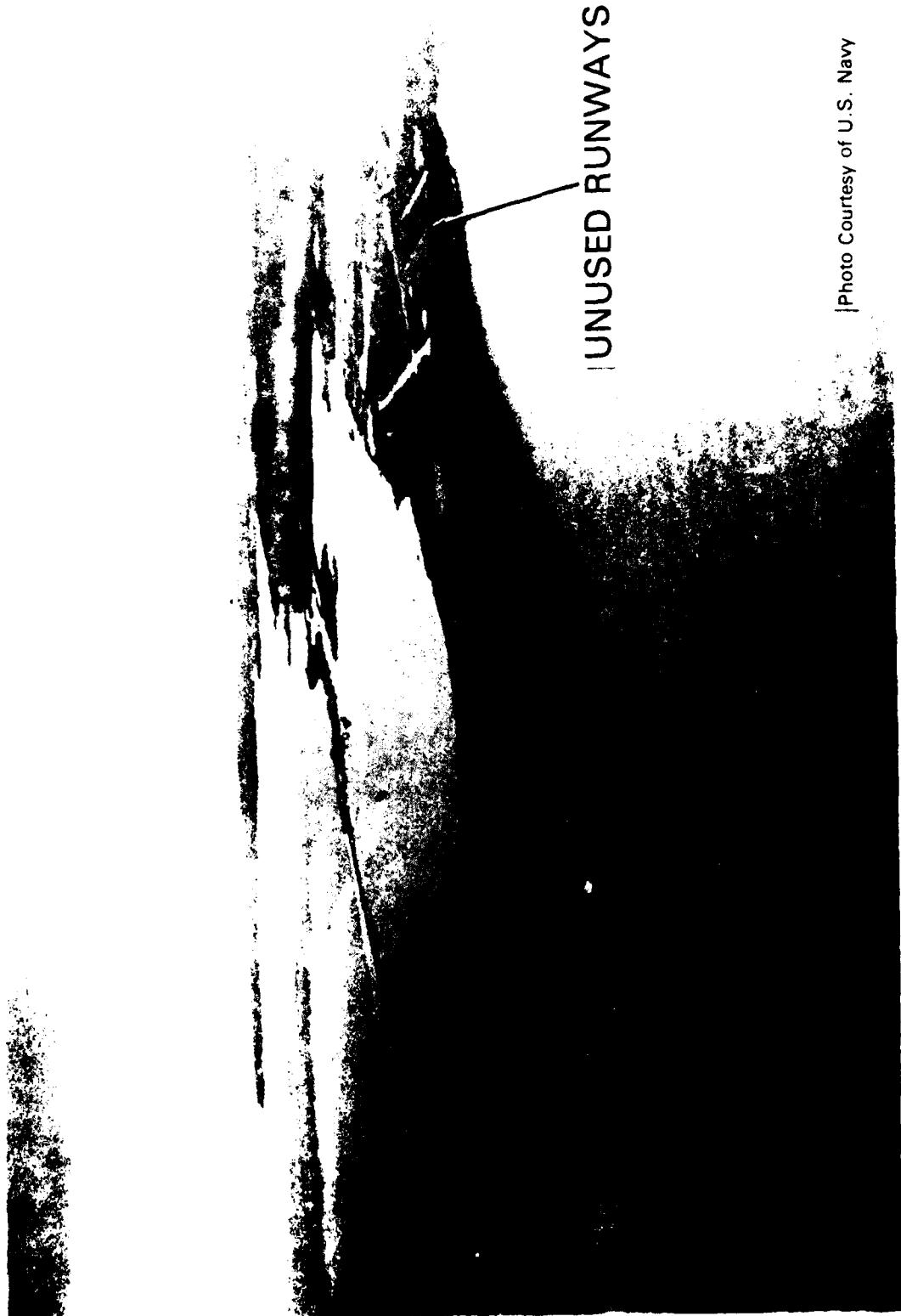
Photo Courtesy of U.S. Navy

NORTH PART OF GUAM



APPENDIX IX

Photo Courtesy of U.S. Navy



|Photo Courtesy of U.S. Navy

APPENDIX XI

LAND VALUES IN THE NORTHERN MARIANA ISLANDS

	50-Year lease price			Fair market value	
	1974 NAVFAC (note a) estimates for negotiations	1975 negotiated price in Covenant	Current inflated price (estimated)	1981 appraisal	1982 appraisal
Tinian 17,799 acres	\$11,854,134 (\$666 per acre)	\$17,500,000 (\$983)	\$30,065,433 (\$1689)	\$18,724,548 (\$1,052)	\$17,976,990 (\$1,010)
Saipan 177 acres	\$ 1,659,375 (\$9,375)	\$ 2,000,000 (\$11,299)	\$ 3,418,812 (\$19,315)	(none)	\$17,877,000 (\$101,000)
Farallon de Medinilla 206 Acres	(none)	\$ 20,600 (\$100)	\$ 33,518 (\$163)	(none)	(none)
Total	<u>\$13,513,509</u>	<u>\$19,520,600</u>	<u>\$33,517,763</u>	<u>\$18,724,548</u>	<u>\$35,853,990</u>

a/Naval Facilities Command.

(463684)